



April 15, 2022

Representative Louise Stutes
Speaker
Capitol Room 208
Juneau, AK 99801

Representative Chris Tuck
Majority Leader
State Capitol Room 216
Juneau, AK 99801

Representative Cathy Tilton
Minority Leader
State Capitol Room 404
Juneau, AK 99801

Representative Zack Fields
Co-Chair, Labor and Commerce Committee
State Capitol Room 24
Juneau, AK 99801

Representative Ivy Spohnholz
Co-Chair, Labor and Commerce Committee
State Capitol Room 406
Juneau, AK 99801

RE: HB 408 Small Business & Payroll Industry Views on Proposed Legislation

Dear Representatives:

We write to inform you of the impact policy that is before your office would have on the State's tax collection, small business community, and wages of working Alaskans. If enacted, HB408 would make Alaska undertake a policy drafted under a model act by the Conference of State Bank Supervisors (CSBS). The process will not come without cost to Alaska and ambiguity to Alaska businesses and workers. Being among the first to implement this policy - that adds payroll firms to money transmission requirements creates a regulatory uncertainty that impacts the taxes collected by the state from payroll service providers and the wages paid to Alaskans by payroll service providers. We want to work with you to address important issues and hope you can find time to discuss our concerns.

Under the policy set forth in HB408, payroll firms operating in Alaska will be forced to undertake a costly and burdensome regulatory process. This will increase costs to administer tax compliance and payroll without any defined improvement in performance. The function of the payroll service providers (PSP) is to ensure that companies' employees receive the wages they've worked hard to earn and states receive their tax payments in a timely and efficient manner. The payroll service industry has proven itself to be a regular and reliable conduit between employers and government tax collectors, with an industry reliability rate of 99.999999%.

- The payroll service industry has significant government oversight, reporting 100% of monies they collect from clients (businesses) and subsequently remit to client employees, taxing authorities, child support agencies, and other payroll-related payees on W2s, 1099s, 940s, 941s and various other reconciliation reports.
- PSPs have a long history of operating in a safe and sound manner.
- Payroll service providers provide services exclusively to employers, not to consumers.
- The PSP industry works in every community across the country and provides a service that is valuable—serving entrepreneurs, creating small business jobs, and providing significant value to the economy.
- PSPs improve the efficiency of government tax collection and improve tax compliance. Payroll service providers exist to help businesses manage and fulfill their obligations to employees and to our nation's tax collection system.
- PSP industry educates business owners on new legislations and tax programs like the Payroll Protection Program; additionally we ensure that new employer tax relief programs like COVIDsick pay are quickly deployed and available to employers and employees.

Despite our exceptional service across the country, new money transmission regulations would make significant changes to our industry. Changes currently proposed present significant concerns to our industry and will raise costs for the small businesses in your state and require PSP's with smaller volume to abandon the state. We urge you to give close attention and consideration to the regulatory structure proposed in SB 238 and the policy consequences that will follow.

The money transmitter licensing that is proposed in HB408, was endorsed by the CSBS. Their "Model Act" upon which HB408 is based, does not bring Alaska into conformity with other states around the country, on the contrary, it would make Alaska the first state to take on this exact approach. CSBS built their proposal without input from, the payroll industry. If our industry had been invited to participate, we would have made them aware of the significant risk MTL can have for the small business economy, consumers, and the tax collection functions payroll service providers perform.

Today, nationwide, there are approximately 300 licensed money transmitters. According to IRS data, there are over 30,000 qualified payers to the IRS – many of them are PSPs. Most payroll companies are technologically sophisticated entities doing business in many states. The cost of licensing and monitoring the industry, with the license renewals and occasional audits, will be high and will require the use of employees that are well-trained for the task. The payroll industry is large and complex, made of many different types of businesses of all sizes.

Upon examining the industry's record, we trust you will find the industry's robust performance, existing and significant oversight in place, reasons why other states have exempted payroll processors from overly burdensome regulations, including licensing as money transmitters.

We would happily build a deeper level of engagement with your office and our industry ensure a well-rounded assessment the effects of HB408 and its costs and risks. Keeping in mind, growing employers hire employees to work in Alaska with no notice or approval required by their payroll

processor. Every employer will want to be certain that any payroll company they choose for their processing will be able to engage with a new hire if they choose that hire to work from Alaska.

We want to work with you to ensure compliance, but also to make sure that any policies you adopt can be implemented by the business community in Alaska regardless of size, but particularly for small businesses like the independent small businesses we represent.

Thank you for the taking the time to consider this input. We look forward to a conversation with you on reducing cost, delays, and confusion for the payroll industry.

Sincerely,



Michael Young, IPPA, President Emeritus, Government Affairs Lead
ConnectPay, USA



Robin Imbrogno, The Payroll Group, Past President, Government Affairs Lead
The Human Resource Consulting Group

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Cc: Senator Tom Begich, Minority Leader; Senator Mia Costello, Chair, Labor and Commerce
Committee;